

From: Arthur P. Villa [mailto:avilla@socalfairtax.org]

Sent: Saturday, July 11, 2009 12:29 PM

To: comment, cotce

Subject: State version of the FairTax (www.fairtax.org) would make CA a business tax haven state which would attract business, jobs, prosperity, and tax revenues back to CA.

Below is a letter that I sent to Assemblyman Logue on June 16th. I think you will find it relevant in your consideration of tax alternatives.

The kind of revenue stability that California seeks is only achievable via taxes not tied to personal and corporate income and state payroll taxes. State corporate and payroll taxes (SDI, SUI, etc.) are particularly punishing to businesses because they are costs that must be passed on to end-consumers in price increases which make California-made products and services less competitive than those made in neighboring states or abroad.

The increases in revenue that California seeks can only be achievable by spreading taxes to those currently not paying taxes. Many aren't paying taxes because they don't have a job (or are working under the radar). So, attracting business, jobs, and prosperity back to state is a key objective. Implementing a California FairTax which will remove all corporate income tax, payroll tax (SDI, UI, etc.), capital gains tax, personal income tax, and estate tax would make California a business tax haven would attract businesses, jobs, and prosperity back.

If we don't tax corporate and personal income, payroll, capital gains, and estate taxes how is the state to make tax revenues? By extending the sales tax to apply to consumption of all retail services (see my letter below for more elaboration).

Remember the key is that more business = more jobs = more prosperity/affluence = more consumption = more tax revenues. It also means less need for costly social programs like unemployment and welfare.

Remember also that sales tax spreads the tax burden to all who consume in our great state inclusive of tourists, business travelers, and non-legal residents. These groups do not pay income taxes.

As clarification to the letter below I should point out that income tax deductions (like the mortgage interest deduction) would be unnecessary with the California FairTax.

Alternatives other than a California FairTax will not have as strong of a benefit to California businesses and, therefore, will have weaker results. Remember, businesses do not pay taxes. Businesses price taxes into the products and services that they sell which ultimately get passed on to consumers. If California takes the bold approach of removing all business taxes, a new California Gold Rush of businesses will result. Prosperity fixes many many things. Please consider the California FairTax and bring prosperity back to our great state.

Sincerely,

Arthur P. Villa
Long Beach, California

Dear Assemblyman Logue.

I just read the article in the Wall Street Journal "Schwarzenegger Gets Radical – Terminating the California Income Tax" that identifies you as the head of a task force on taxes in our great state. Thank you for heading this up!

According to the article, the situation calls for massive tax reform with bold proposals to be considered.

A state version of the FairTax would solve our problems.

In a nutshell, the state version of the FairTax would eliminate all business taxes - Corp. taxes, SDI, UI, (would be funded out of the general fund), personal income taxes, capital gains taxes, and estate taxes. State revenues would be replaced by extending the sales tax to services. As we know, the service sector of our economy is huge. By extending the tax to services, our state will realize a tremendous boost in tax revenues.

Sales Tax is progressive. The more affluent spend more money and, therefore, pay more into the system. The tax is made more progressive and puts family survival 1st through a sales tax prebate provision which provides a monthly payment to every legal California family to untax them on consumption up to the poverty level which I will explain in an example a few paragraphs below.

Transformation to eliminate business taxes, income tax, capital gains tax, and estate taxes accomplishes many key things:

1. By eliminating business taxes and tax compliance costs, California becomes a business tax haven. Where businesses prosper, jobs and prosperity follow. Prosperity is the key to state revenues.
2. California's economy would be stimulated with massive investment into the business sector.
3. Tax compliance for residents and enforcement by the state become much simpler and much less expensive as well.
4. State residents will be free to create wealth via true productivity vs. divide wealth via punishing taxes and compliance services (CPAs, tax attorneys, etc.)
5. California would broaden the tax base in the service-sector to include tourists, business travelers, and non-legal residents, and legal residents that currently avoid/evade income taxes.
6. In the case of non-legal residents, they would contribute more in taxes but would not qualify for the tax prebate.

For an easy example, let's say the state sales tax is 10%. The actual sales tax percentage would need to be studied but, for round numbers, let's use 10%. Remember, this extends to services now which would be a huge new source of revenue. Here are some scenarios:

Senario #1: Family of four earns \$100,000 and spends \$80,000 in California.

- State tax receipts would be \$8,000 (\$80,000 @ 10%).
- The poverty-level for the family is \$28,000 which puts the tax prebate at \$2,800 for the year.
- Net revenues for the state would be \$5,200 for this family.

Senario #2: Family of four earns \$50,000 and spends \$50,000 in California

- Sales tax receipts would be \$5,000

- Sales Tax prebate would be \$2,800
- Net revenues for the state would be \$2,200

Senario #3: Family of four earns \$250,000 and spends \$150,000 in California

- Sales tax receipts would be \$15,000
- Sales Tax prebate would be \$2,800
- Net revenue for the state would be \$12,200

Considering more affluent scenarios like scenario #3, these families would have home mortgage deductions, and other deductions that would bring their income tax obligation way down.

This is a bold proposal and there is much more to consider than what I put forth in this letter. Remember, though, that competing for businesses and jobs is of utmost importance. Rewarding hard work and innovation is the key and there is nothing that comes close in terms of attracting new business, jobs, and prosperity to our great state.

There are many FairTax enthusiasts in this state (and around the nation). I would welcome further inquiry with regard to this bold, fresh proposal should you and/or your task force have questions.

Sincerely,

Art Villa